



INTERNAL AUDIT CONTROLS EVALUATION CIVIC CENTER CONCESSIONS

March 4, 2001

Roanoke City Council Audit Committee
Roanoke, Virginia

We have audited the Civic Center's concession operations in accordance with government auditing standards.

BACKGROUND

Prior to April 1999, the Civic Center out-sourced food services to The Swanson Corporation. Under the terms of the contract, the Civic Center received a commission of 34% of net concession sales after taxes. In addition, the Civic Center received 20% of net catering revenues, after taxes and gratuities were deducted.

The Civic Center's management performed an analysis of the concession's activities. The analysis showed that concession sales were increasing as a result of the hockey schedule and a high per-capita spending by patrons at the Hockey games. They identified the increased sales as an opportunity for the facility to alleviate the deficit of the Civic Center. Therefore, the Civic Center's management decided that taking over the operations of food services would be beneficial to the City.

As a result of that decision, the Civic Center hired an Assistant Food and Beverage Manager to manage the concession operation. The Assistant Food and Beverage Manager is responsible for staffing stands, ordering and maintaining inventory, and overseeing the operation of these stands during an event.

The Civic Center does not employ full-time staff to operate each concession stand, but instead it employs six part-time Stand Managers and also relies on non-profit organizations to assist in operating them. The non-profit organizations are under contract with the Civic Center, and they receive 10% of the net sales after taxes from the stands they operate during an event.

The Civic Center's accounting department monitors inventory sales and cash collected by each concession stand. If an organization worked a stand and the inventory sales are more than cash received the difference is deducted from the organization's commission. Otherwise, a check for 10% of net sales is written to the organization for its commission.

The Box Office assists the concession stand operations by providing change funds. The Box Office maintains \$11,000 cash in a vault, which is used for change funds for the ticket windows, concession stands, and catered events. There are two types of change funds established by the Box Office: 1) fixed stands with a change fund of \$500 and 2) portable stands with a change fund of \$250. Generally these funds are distributed an hour before an event takes place and they are immediately returned following the event.

PURPOSE

The purpose of this audit was to evaluate the design and operation of the internal control system for concession operations that should ensure concession sales are properly processed and reported.

METHODOLOGY

We obtained an understanding of the concession operations by interviewing Civic Center's staff members. We documented our understanding by developing data flows and narratives. Based on these narratives, we identified controls and the risks involved in the operations. Then, we evaluated the efficiency and effectiveness of the controls over the risks. As a result of our evaluation, we developed a test program that includes a combination of substantive and control test work.

RESULTS

During our evaluation of controls over the concession operations, we identified the following:

Finding 01

The Civic Center does not have an inventory system in place that monitors shrinkage and inventory on hand.

Management's Response 01

The Civic Center's management has agreed to develop and implement a perpetual inventory system. This system will require the accounting department to maintain a balance for cost of goods on hand and cost of goods sold. In additions, the Assistant Food and Beverage Manager will develop a requisition form that will be used to monitor the movement of goods from the storeroom to concession stands. The accounting department's and the Assistant Food and Beverage Manager 's inventory records will be agreed on a regular basis. In addition, the staff will perform periodic counting of inventory.

Finding 02

The Civic Center's box office is closed for events in which tickets are not sold. When it is closed the change funds for the concession stands are released to the Assistant Food and Beverage Manager, who locks the funds in his desk. This practice of storing change funds in a desk does not properly safeguard them.

Management's Response 02

The Civic Center's management has agreed to purchase a combination safe to be used to store change funds when the Box Office is closed.

Finding 03

The Civic Center box office maintains a cash balance of \$11,000 for the purpose of providing change funds to the ticket windows, concession stands, and catering events. An independent person does not count the funds maintained in the Box Office.

Management's Response 03

The Civic Center's management has agreed to develop procedures for an independent person to perform surprise cash counts in the Box Office.

Finding 04

The Civic Center contracts with organizations to operate concession stands. These organizations are responsible for setting up their assigned stands, which includes picking up change funds from the Box Office. The Box Office releases change funds to the organizations without having prior knowledge of persons authorized to receive them. This practice carries a risk of unauthorized persons receiving the change funds.

Management's Response 04

The Civic Center's management agrees that a list of persons and organizations authorized to pick up the change funds should be prepared by the Assistant Food and Beverage Manager. The list will be given to the Box Office, prior to an event, so that the risk that unauthorized persons receiving change funds is reduced.

We also performed the following substantive test work for 10 of 63 events that took place during the months of October, November, and December of 2000.

1. We determined that concession collections are properly accounted for and deposited intact by agreeing cash reported by the concession stand workers to the Box Office records. In addition, we agreed the Box Office's records with the applicable bank validated deposit slips and reviewed bank reconciliations. No exceptions were noted.
2. We determined that concession collections are properly accounted for and recorded as required by reviewing transaction documentation prepared by the Box Office and the Civic Center's Accounting department.
3. We determined that concession sales are accurately recorded by examining the transaction detail in the Civic Center's accounting system. The revenues from events were traced to the proper debit and credit accounts.

4. We determined that concession revenues are remitted to the City Treasurer's Office by reviewing validated City of Roanoke collection reports.
5. We determined that the Civic Center's checking account was reconciled accurately and in a timely manner. We found that adjustments made were reasonable.
6. We determined that the \$11,000 on hand in the Box Office for the purpose of making change for concessions, and ticket windows was intact by performing a surprise cash count. However, we found that there was an overage of \$80.25 that could not be explained by the Box Office, we recommended that the amount be deposited in the concession account.

CONCLUSION

We believe there is reasonable assurance that the design and operation of the internal control system for concession operations are adequate to ensure that concession sales are properly processed and recorded. However, we found that improvements were needed in the area of inventory management.

We would like to thank the Civic Center's staff members for their cooperation during the audit.

Tera Dawn Hamden, CPA
Senior Auditor

Drew Harmon, CPA, CIA
Assistant Municipal Auditor